

Department of the Treasury

Regulatory Bulletin

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Handbook: **Examination Handbook**

Subject: **Liquidity**



Section: 561

Reserve Requirements (Regulation D)

Summary: This bulletin transmits revised Examination Handbook Section 561, Reserve Requirements (Regulation D).

For Further Information Contact: Your Office of Thrift Supervision (OTS) Regional Office or the Examination Programs Division of the OTS, Washington, DC. You may access this bulletin and the handbook section at our web site: www.ots.treas.gov.

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SUMMARY OF CHANGES

OTS is issuing revised Examination Handbook Section 561, Reserve Requirements (Regulation D). Change bars in the margins of the handbook section indicate revisions. We provide a summary of substantive changes below.

561 Reserve Requirements (Regulation D)

We revised this section to reflect the following regulatory changes:

- The annual indexing of the reserve requirement exemption amount and the low reserve tranche for 2009.
- The annual indexing of the nonexempt deposit cutoff level and the reduced reporting limit used to determine the frequency at which depository institutions must submit deposit reports in 2009.
- A 2002 amendment conforming the calculation of penalties for reserve deficiencies to the new discount-rate framework.

— Timothy T. Ward

Deputy Director

Examinations, Supervision, and Consumer Protection

Reserve Requirements (Regulation D)

Under the Depository Institutions Deregulation and Monetary Control Act of 1980, every depository institution that has transaction accounts or nonpersonal time deposits must maintain reserves on those deposits as prescribed by the Federal Reserve Board (the FRB). The FRB's Regulation D, Reserve Requirements of Depository Institutions (12 CFR § 204), sets forth the rules related to reporting deposits and maintaining reserve balances. Depository institutions, whether members of the Federal Reserve System or not, must file a periodic report of deposits with the Federal Reserve Bank in its local Federal Reserve District.

The Federal Reserve uses the reports of deposits to accomplish the following goals:

- Define more precisely the components of the money supply.
- Set reserve requirements.
- In aggregate, help formulate monetary policy.

L I N K S	Errors in reporting or in maintaining proper reserve balances may adversely affect the conduct of monetary policy by the Federal Reserve and result in the following for institutions:
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 [Program](#)

- Higher reserve requirements and a reduction in potential earnings.
- The assessment of reserve deficiency charges.
- A more frequent reporting requirement.

Regulation D is a highly complex regulation that requires careful study to master. We suggest that all regulators and institution management read the regulation. In addition, the comprehensive instructions for preparation of required reports contain information helpful in providing a good understanding of the regulation. See the Federal Reserve Board's website for the forms and instructions: www.federalreserve.gov/boarddocs/reportforms/.

This Handbook Section only touches on the highlights of the regulation and focuses on frequently misunderstood areas.

Reserve Requirements

All depository institutions must hold a percentage of certain types of deposits as reserves in the form of vault cash, as a deposit in a Federal Reserve Bank, or as a deposit in a pass-through account at a correspondent institution. Reserve requirements currently are assessed on the depository institution's net transaction accounts (mostly checking accounts).

Regulation D (12 CFR § 204.9) specifies the reserve requirement ratios for all depository institutions as shown in Table 1.

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There is a zero percent reserve requirement on the first \$10.3 million of the depository institution's transaction accounts subject to the low reserve tranche (\$44.4 million). The regulation requires the application of a three percent reserve requirement on the remainder of the low reserve tranche. Transaction accounts above the low reserve tranche have a ten percent reserve requirement.

The FRB establishes before the beginning of each year the amount of transaction accounts subject to the three percent ratio requirement. The FRB describes this adjustment as the low reserve tranche adjustment. The FRB also establishes on an annual basis the amount of reservable liabilities of each depository institution that is subject to a reserve requirement of zero percent. The FRB describes this adjustment as the reservable liability exemption. Reservable liabilities include transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities as defined in § 19(b)(5) of the Federal Reserve Act. The reserve ratio on nonpersonal time deposits and Eurocurrency liabilities is zero percent.

The FRB uses deposit cutoff levels in conjunction with the reservable liability exemption to determine the frequency of deposit reporting. Nonexempt institutions are those with total reservable liabilities exceeding the amount exempted from reserve requirements. Exempt institutions are those with total reservable liabilities not exceeding the amount exempted from reserve requirements.

Table 1	
2009	
Category	Reserve Requirement ¹
Net Transaction Accounts	
\$0 - \$10.3 M	0% of amount
>\$10.3 - \$44.4 M	3% of amount
>\$44.4 M	\$1,023,000 + 10% of amount > \$44.4 M
Nonpersonal Time Deposits	0%
Eurocurrency Liabilities	0%

¹ See 12 CFR § 204.3(a)(3) for a technical explanation of the allocation of exemption from reserve requirements.

TRANSACTION ACCOUNTS

Regulation 12 CFR § 204.2(e) defines transaction accounts with great specificity. Such accounts include the following:

- Demand deposits.
- Certain accounts on which the depository institution reserves the right to require at least seven days written notice before withdrawal or transfer of any funds. These accounts exclude those meeting the definition of savings accounts but include other accounts:
 - Subject to check, draft, negotiable order of withdrawal, or other similar item.
 - Subject to automatic withdrawal.
 - That permit a depositor to make more than six withdrawals per month or statement cycle.
- Deposits or accounts maintained with an agreement that permits the depositor to obtain credit directly or indirectly through the drawing of a negotiable or nonnegotiable check or similar device.
- Certain other accounts that the FRB determines by rule or order, to be transaction accounts.

Regulation 12 CFR § 204.2(f) defines Nonpersonal time deposits. Regulation D does not require the holding of reserves against these deposits.

Regulation 12 CFR § 204.2(h) defines Eurocurrency liabilities. Regulation D does not require the holding of reserves against these liabilities.

The computation of transaction accounts does not permit, with one exception, the netting of overdrafts in demand accounts and other transaction accounts [12 CFR § 204.3(e)].

Specific Rules for Certain Types of Savings Deposit Accounts

The definition of transaction accounts excludes savings deposits; however, savings deposits must meet detailed requirements to qualify for exclusion. Regulation D places restrictions on transfers and withdrawals from savings deposits such as passbook and statement savings accounts and money market deposit accounts (MMDAs).

The regulation authorizes only six transfers and withdrawals, or a combination of such, to another account of the depositor at the same depository institution or to a third party, during one of these time periods:

- Calendar month.

- Statement cycle of at least four weeks.

Regulation 12 CFR § 204.2(d)(2) further requires that a depositor make no more than three of the six transfers by check, draft, debit card or similar order drawn to third parties. Also, the six-transactions limitation applies to telephone transfers to another account of the same depositor.

Institutions should report MMDAs and other savings deposits separately where called for according to reporting instructions for the specific reports.

Regulation D requires depository institutions to implement procedures either to prevent transfers in excess of the limitations or to monitor accounts on a periodic basis and contact customers who exceed these limits. Further, proper disclosure to customers of these limitations may serve to ensure compliance.

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If the depositor exceeds account limitations the depository institution must take one of the following actions:

- Close the account and place the funds in another account that the depositor is eligible to maintain.
- Remove the transfer and draft capacities of the account.

Frequency of Reporting

Depository institutions must regularly submit reports of their deposits and other reservable liabilities. The Board screens depository institutions each year and assigns them to one of four deposit reporting panels (weekly reporters, quarterly reporters, annual reporters, or nonreporters). The panel assignment for annual reporters is effective in June of the screening year; the panel assignment for weekly and quarterly reporters is effective in September of the screening year.

In order to ease reporting burden, the FRB permits smaller depository institutions to submit deposit reports less frequently than larger depository institutions.

The FRB permits depository institutions with net transaction accounts above the reserve requirement exemption amount but with a sum of total transaction accounts, savings deposits, and small time deposits below a specified level (the “nonexempt deposit cutoff”) to report deposit data quarterly. The FRB requires certain large depository institutions to report weekly regardless of the level of their net transaction accounts if the sum of total transaction accounts, savings deposits, and small time deposits exceeds a specified level (the “reduced reporting limit”). The FRB adjusts the nonexempt deposit cutoff level and the reduced reporting limit annually, by an amount equal to 80 percent of the increase, if any, in the sum of total transaction accounts, savings deposits, and small time deposits of all depository institutions over the one-year period that ends on the June 30 prior to the adjustment.

From June 30, 2007 to June 30, 2008, the sum of total transaction accounts, savings deposits, and small time deposits at all depository institutions increased 5 percent (from \$6,144.0 billion to \$6,443.1 billion). Accordingly, the FRB is increasing the nonexempt deposit cutoff level to \$224.6 million for 2007. The FRB is also increasing the reduced reporting limit to \$1.258 million for 2009.²

Beginning in 2009, the boundaries of the four deposit reporting panels (weekly, quarterly, and annual reporters; and nonreporters) will change. See Federal Register Vol. 73, pg. 57488, dated October 3, 2008, or the Reserve Maintenance Manual at <http://www.reportingandreserves.org> for current deposit reporting categories and deposit reporting categories effective for 2009. The Reserve Maintenance Manual also has information fundamental to understanding the reserve calculations and account maintenance for depository institutions that file the FR 2900.

Reserve Balances

Each depository institution can satisfy its reserve requirements with a combination of vault cash and balances held at a Federal Reserve Bank. Depository institutions may deposit their required reserve balances directly with a Federal Reserve Bank. Depository institutions that are not members of the

Each depository institution can satisfy its reserve requirements with a combination of vault cash and balances held at a Federal Reserve Bank.

Federal Reserve alternatively may elect to pass through their required reserve balances to the Federal Reserve through a correspondent. The correspondent may be the District Federal Home Loan Bank. The correspondent will pass through this required reserve balance

dollar for dollar to the Federal Reserve Bank located in the depository institution's Federal Reserve District. However, the FRB requires every depository institution that maintains transaction accounts or nonpersonal time deposits to file its report of deposits directly with the Federal Reserve Bank in its district. This requirement applies regardless of the manner the depository institution chooses to maintain required reserve balances.

The Federal Reserve Bank that receives the reports must notify the reporting depository institution of its reserve requirements. If a pass-through arrangement exists, the Federal Reserve Bank also will notify the correspondent that passes reserve balances through to the Federal Reserve of the depository institution's required reserve balance.

Reserve Deficiency Charges

Deficiencies in a depository institution's required reserve balance are subject to reserve deficiency charges. Regulation D authorizes Federal Reserve Banks to assess charges for deficiencies in required reserves.

The charge for deficiencies is one percent per year above the primary credit rate in effect for borrowings from the Federal Reserve Bank.

² Consistent with FRB practice, the nonexempt deposit cutoff level has been rounded to the nearest \$0.1 million and the reduced reporting limit has been rounded to the nearest \$1 million.

The charge for deficiencies is one percent per year above the primary credit rate in effect for borrowings from the Federal Reserve Bank. The rate used for borrowings is the rate on the first day of the calendar month when the deficiencies occurred. The Federal Reserve Banks assess charges using daily average deficiencies during each maintenance period.

A Federal Reserve Bank may, after consideration of the circumstances, permit an institution to eliminate a reserve deficiency and any charges accruing by maintaining additional reserves during subsequent reserve maintenance periods.

REFERENCES

United States Code (12 USC)

Subchapter XIV - Bank Reserves

§ 461 (19(a) - (c)) Reserve Requirements

Code of Federal Regulations (12 CFR)

Chapter II - Federal Reserve System

Part 204 Reserve Requirements of
Depository Institutions (Regulation D) and Interpretations

Chapter V - Office of Thrift Supervision

Part 557 Deposits

§561.9 Certificate Account

§561.16 Demand Accounts

§561.28 Money Market Deposit Accounts

§561.29 Negotiable Order of Withdrawal Accounts

§561.42 Savings Account

Federal Reserve Board Amendments, Reporting Guidance, and Forms

73 FR 57488, October 3, 2008 – Reserve Requirements of Depository Institutions

67 FR 67787, November 7, 2002 – Reserve Requirements of Depository Institutions [See the amendment conforming the calculation of penalties for reserve deficiencies to the new discount-rate framework]

Reserve Maintenance Manual: <http://www.reportingandreserves.org>

The following report forms and instructions are available online at the Federal Reserve Board's website:
<http://www.federalreserve.gov/boarddocs/reportforms/>

Report of Transaction Accounts, Other Deposits and Vault Cash (Reporting Form FR 2900)

Annual Report of Total Deposits and Reservable Liabilities (FR 2910a)

Reserve Requirements (Regulation D) Program

EXAMINATION OBJECTIVES

To determine that the savings association has procedures in place to comply with Regulation D.

To determine that the savings association complies with the reporting and reserve balance requirements of the regulation.

EXAMINATION PROCEDURES

WKP.REF.

LEVEL I

1. Identify whether the savings association prepares a report of deposits and submits it to the Federal Reserve Bank in its district.

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2. Determine whether the association has operating procedures in existence and a system of internal controls to ensure compliance with the reporting requirements.

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3. Obtain the association's records detailing charges assessed by its Federal Reserve Bank. Also, review forms returned by the Federal Reserve Bank due to improper preparation and failure to comply with Regulation D. Determine whether the association makes corrections upon identification of problem areas.

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4. Determine whether the association's internal audit program provides adequate coverage to assure monitoring on a regular basis of the Regulation D reporting requirements. If the association does not have an internal audit function, a program of management reviews or self audits should include the reporting requirements.

-
5. Identify whether the association has procedures in place to identify and monitor the monthly transaction limitations on the following accounts to ensure that they do not exceed regulatory limits:

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WKP. REF.

- Regular passbook accounts.
 - Statement savings accounts.
 - Money market accounts.
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6. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.
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LEVEL II

7. Review the two most recent reports of deposits to determine whether the items listed are accurate and properly classified.
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8. Perform a limited review of all line items on the report of deposits.
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9. Perform a review and evaluation of the savings association's internal controls for Regulation D reporting compliance. Typical internal controls include independent review and verification of forms for accuracy before submission and the maintenance of proper supporting documentation.
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10. Ensure that your review meets the Objectives of this Handbook Section. State your findings and conclusions, and appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.
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Reserve Requirements (Regulation D) Program

WKP. REF.

LEVEL III

11. If you note substantive exceptions in Level I examination procedures 1-5, perform a detailed review of all line items on the report of deposits. Reconcile the form line items with the general ledger accounts for the specific period under review.
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EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

Exam Date:	
Prepared By:	
Reviewed By:	
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